



**Pakistan Institute of  
Development Economics**

# Pre-Budget Seminar Recommendations

**PIDE School of Public Policy**

**FRIEDRICH  
EBERT  
STIFTUNG**

Pakistan Office

**Friedrich-Ebert-  
Stiftung**

The School of Public Policy of the Pakistan Institute of Development Economics organized a pre-budget seminar on April 8, 2015 in collaboration with Friedrich-Ebert-Stiftung. Professor Ahsan Iqbal, Minister for Planning, Development & Reform presided over the seminar.

### *Panelists*

**Professor Ahsan Iqbal**, Minister for Planning, Development & Reforms (Chief Guest)  
**Dr. Asad Zaman**, Vice Chancellor, PIDE  
**Mr. Tariq Bajwa**, Chairman, Federal Board of Revenue  
**Dr. Ashfaq Hassan Khan**, Principal & Professor, School of Sciences and Humanities & Humanities, NUST Islamabad.  
**Mr. Shahid Kardar**, Vice Chancellor, Economist/Formmer Governor of the State Bank of Pakistan  
**Dr. Athar, Maqsood**, Professor/Head Department of Economics, NUST, Islamabad  
**Dr. Sania Nishtar**, Founder Heart file, Health Policy Activist  
**Mr. Saqib Sherani**, Head Macro Economic Insights (Pvt) Ltd.  
**Mr. Philipp Kauppert**, Resident Representative, FES-Pakistan  
**Mr. Masood, Naqvi**, Chairman, Tax Reform Commission  
**Mr. Noman Ishtiaq**, Technical Advisor, PFM-SPP  
**Dr. Idrees Khawaja**, Head, PIDE School of Public Policy

Following are the key recommendations offered by the panelists of the seminar:

1. Chairman FBR stated that the FBR faces the challenge of 'Why should I pay tax'. Thus he referred to the root of the problem and to what is discussed in relevant literature as the state-citizen bargain – the citizens pay taxes to the state and in return expect effective public provision of certain goods and services deemed the ambit of the state, for example the security of life and property. Citizen's failure to observe effective public provision, constrains tax collection and the impression of leakages and rent seeking within the state augments this constraint further. To increase tax collection the citizens must enjoy 'bang for the buck'.
2. A major reason for slow growth in tax revenues is slower economic growth. Pakistan's growth performance is typical of an underperforming economy. It has recorded only three episodes of growth acceleration since 1960, with the GDP per capita exceeding 3 percent per annum (1963-66, 1980-83, 2004-07). The economy's long-term 'structural' growth trend is declining from 6-7 percent in 1960s to less than 3 percent in late 2000. Pakistan's current growth rate is significantly below potential.
3. The economy seems suffering from deflation. We should choose between 'stabilization-first, growth-later' and 'job-rich growth'. To increase growth and hence tax revenues, the economy needs a fiscal stimulus of the right kind and the upcoming budget should provide the required stimulus. While giving fiscal stimulus, greater emphasis should be placed on quality of expenditure, particularly an emphasis, on investment in physical and human capital is required.
4. To introduce fiscal prudence, the supplementary budget should be approved ex-ante rather ex-post as is the practice in almost all the countries around the world, barring some exceptions.
5. Multiple tax agencies at the provincial and the federal level should be amalgamated to form a unified tax collection agency. Equity, efficiency, administrative convenience and ease of payment for the taxpayer, all favour a single national tax authority with no counterparts at the provincial level.
6. To induct professionals, into the FBR, who possess the academic knowledge required for raising revenues from specific kinds of taxation, the induction in FBR should be delinked from the CSS. The FBR should be allowed to undertake job-specific recruitment directly from the market on the pattern an autonomous entity recruits her employees.
7. The FBR should enjoy greater independence and authority then it currently possess. One step towards independence of the FBR could be that the chairman FBR be hired from the market through a competitive process for a fixed tenure of 3-5 years.
8. To incentivize collection at the provincial level, rather than collecting most of the taxes at the centre and then redistributing through the NFC, tax bases like income, including corporate income, be shared between the Centre and provinces in some proportion deemed fit. This may put such provinces where economic activity is rather low at a disadvantage. Such disadvantaged province can be assigned a greater share from the shrunken divisible pool of taxes.
9. Legal framework should be suitably amended to make people reveal the source and magnitude of their income. This can give a quantum jump to tax collection.
10. Numerous taxpayers file appeal against the tax assessed by the FBR. Currently the FBR officers are posted as judges to the tribunals/appellate tribunals. To make the appeal process more transparent and credible separate tax courts

should be constituted. The judges of such courts should have nothing to do with the FBR.

11. To do away with regressive tax structure, efforts on economic as well political fronts are required. Focus should be the medium and long term gains rather than raising revenues in short term. Documentation of the economy is important, taxes will ultimately follow.
12. Reliance on presumptive taxation/withholding taxes should be reduced.
13. Wealth/assets should be brought in the tax net.
14. The rate of sales tax should be reduced.
15. The FBR and NADRA have identified 3.2 million potential taxpayers, concerted efforts are required to bring these potential taxpayers into the ambit of taxation.
16. There seems to be complete consensus that SROs should be completely eliminated. (The government has taken steps to undo or abolish concessionary SROs in the next year financial year, Chairman FBR).
17. The universal self-assessment scheme should be supplemented with an effective audit system.
18. Emphasis should be placed on increasing revenue mobilization through reforms and improvement in tax administration.
19. Major reforms are required in the incentive mechanism to keep motivated the performing staff of the FBR.
20. Legal loopholes that allow whitening of money should be addressed.
21. The dominance of fiscal policy over monetary policy should give way to coordination between monetary and fiscal policy in true spirit.
22. The efforts, undertaken a couple of years back, aimed at reforming the FBR failed because the authorities had not been to sell the reforms to the FBR officials. To change the mindset at the FBR the staff of the authority has to be on board.
23. To give a sense of equity and hence increase tax collection, sectoral imbalances should be addressed – currently manufacturing bears a greater burden relative to agriculture and services.
24. The problems faced by the health sector can be solved to an extent without expending a lot of money. What needs to be improved is effectiveness and accountability.
25. Budget can serve as a lever of equity at the polity level. The federal government can use this lever to bring all provinces at par in terms of delivery of health services.
26. To increase health coverage, rent seeking environment should be addressed, for example, health coverage can be increased by a simple act of Parliament – increasing the EOBI limit to a reasonable level for the industrial workers. Industrial lobbies sitting inside Parliament or influencing Parliament does not allow this increase.
27. Taking lead from the Indian model for providing health services at affordable prices through the private sector, we should provide land at subsidized price to health care facilities. This would work only if the beneficiaries can be restrained from using land for other purposes.

In his inaugural address, the chief guest, Professor Ahsan Iqbal, Minister for Planning, Development & Reform, lauded the pre-budget debate as a timely initiative of PIDE and FES. Speaking about budgetary allocations, he stated that development gets very little relative to defence and debt servicing, which reflects the narrow scope of the development options. To finance development and other expenditures, tax to GDP ratio must increase.

Mr. Philipp Kauppert, Resident Director of FES-Pakistan, said in his opening remarks that Fiscal policy is central to demand management practices and it is ultimately about setting priorities and choosing the right instruments. He said that the objective of the pre-budget organized jointly by PIDE and FES is to make recommendations regarding the conduct of fiscal policy in Pakistan.

Dr. Asad Zaman, Vice Chancellor, PIDE presented a set of radical reforms for raising and spending money. Influenced by the Iceland plan for monetary reforms, he suggested that only the state should have the sole privilege to create money. Banks should be community based, on the German model and should be responsible for the provision of self-liquidating loans. He stressed that to discourage bank-borrowing and investment in unproductive sectors, interest bearing financial instruments should be prohibited and replaced with Musharka. This however, he stated, would require an overhaul of the global economic system.

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**Complied by:**

Idrees Khawaja, Rafat Mahmood, Sundus Saleemi, Tahira Ishaq, Unbreen Qayyum and Iftikhar Ahmad

Email: [jdreeskhawaja@pide.org.pk](mailto:jdreeskhawaja@pide.org.pk)

Pakistan Institute of Development Economics  
Quaid-i-Azam University Campus  
P. O. Box 1091  
Islamabad 44000, Pakistan

Tel. +92-51-9248033  
Fax: +92-51-9248065  
Web: [www.pide.org.pk](http://www.pide.org.pk)